

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

July 20, 2010

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee met on Tuesday, July 20, 2010, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Robert R. Damron and Jim Wayne.

Guests: Brett Antle, Office of Financial Management; John Hicks, Governor's Office of Policy and Management; Sam Ruth, Facilities and Support Services; Larry Blake, Northern Kentucky University; Mitchell Payne, University of Louisville; Sandy Williams, Kentucky Infrastructure Authority; Bob Wiseman and Donna Counts, University of Kentucky; and Jim Ackinson, Kentucky Higher Education Student Loan Corporation.

LRC Staff: Kristi Culpepper, Don Mullis, Shawn Bowen, and Samantha Gange.

Approval of Minutes for June 2010

Representative Wayne made a motion to approve the minutes of the June 15, 2010, meeting. The motion was seconded by Senator Carroll and approved by voice vote.

Correspondence Items

Senator Leeper asked Kristi Culpepper, Committee Staff Administrator, to discuss correspondence items. Ms. Culpepper said members' folders contained several correspondence items: Finance and Administration Cabinet, Murray State University, Northern Kentucky University, University of Kentucky, University of Louisville, and Western Kentucky University quarterly status reports on capital projects; Administrative Office of the Courts quarterly status report on court facility construction and renovation projects; Commonwealth Office of Technology quarterly status report on information technology systems; and correspondence from Tom Howard, Executive Director, Office of Financial Management (OFM), regarding questions raised by Committee members about the state's outstanding debt and debt that has been authorized by the General

Assembly that has not yet been issued. Ms. Culpepper said Mr. Howard's letter also addressed the Committee's questions about the costs associated with debt restructuring.

Other items of correspondence included a letter from John Covington, Executive Director, Kentucky Infrastructure Authority (KIA), responding to the Committee's questions about the amount of funding KIA has available for the 2011 funding cycle and the size of borrowers that have received loans; and a notice of advertisement of leased space from the Finance and Administration Cabinet for space in Covington, Kentucky.

Discussion of State Debt and Debt Restructuring

Representative Wayne asked if this was the first time the state has done debt restructuring transactions to provide budgetary relief. Brett Antle, Assistant Director, OFM, said it was not.

Representative Wayne asked what fiscal year the state will have to start repaying on the restructurings. Mr. Antle said the state will start making payments for fiscal year 2010 on the State Property and Buildings Commission No. 90 bond issue. He said that with the more recent bond issues, the state will not start the amortization until after this biennium.

In response to another question from Representative Wayne, Mr. Antle said the General Assembly will need to budget these payments in the next budget.

Representative Wayne asked if OFM had a comprehensive list of other states that are also doing these types of debt restructurings. Mr. Antle said there are other states that are doing similar restructurings, however he did not know how many states. He said he would provide the information to Committee staff.

In response to another question from Representative Wayne, Mr. Antle said the debt restructurings were done specifically to provide cash flow savings during the current budget cycle on behalf of the General Fund as well as the Road Fund.

Representative Wayne asked if the state has been downgraded because of the debt restructurings. Mr. Antle said Fitch Ratings downgraded the Commonwealth from AA to AA- last month, but Moody's Investors Service affirmed the state's General Fund rating at Aa2. Mr. Antle said that Fitch cited the state's use of debt restructurings when it downgraded the state last month. Moody's has mentioned the state's debt restructurings in justifying its negative outlook on the state's credit.

Senator Carroll asked what amount was borrowed against the Road Fund in the 2010 Special Session. Mr. Antle said the new authorization for the Road Fund included \$400 million of economic development bonds, \$112 million for Base Realignment and Closure (BRAC), and \$10.5 million for aviation projects.

Information Items

Ms. Culpepper said members' folders contained three information items: Tourism, Arts and Heritage Cabinet's Kentucky Horse Park Energy Savings Performance Contract, and the staff and bond market updates.

Lease Report from Northern Kentucky University.

Senator Leeper asked Larry Blake, Assistant Vice President, Northern Kentucky University (NKU), to report one item related to a lease renewal. Mr. Blake said the lease renewal was for the NKU METS Center located in Erlanger, Kentucky (PR-07801). The annual cost for space is \$700,000 through June 30, 2012.

In response to a question from Senator Carroll, Mr. Blake said the advertisement for the space yielded no other responses.

Senator Carroll made a motion to approve the lease renewal for NKU. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Scope Increase for the University of Louisville

Senator Leeper asked Mitchell Payne, Vice President for Business Affairs, University of Louisville (UL), to report a scope increase. Mr. Payne reported a scope increase for the Papa John's Cardinal Stadium Expansion project. The scope increase is \$5,100,000 for a revised scope of \$77,100,000. Funding for the increase comes from restricted funds and private donations. The additional funds are needed for a scoreboard, decorative crown trellis, permanent tent structures, and construction of a ticket office/team store.

Senator Carroll made a motion to approve the scope increase for UL. The motion was seconded by Representative Wayne and approved unanimously by roll call vote.

Project reports from the Finance and Administration Cabinet

Senator Leeper asked John Hicks, Deputy Director, Governor's Office for Policy and Management, and Sam Ruth, Commissioner, Department for Facilities and Support Services, to report several projects. Mr. Hicks said the first project was a scope increase for Eastern Kentucky University (EKU) Renovate Walters Hall project. The scope increase is \$450,000 for a revised scope of \$10,950,000. Funding for this increase comes from restricted funds. The additional funds are needed to offset increased costs associated

with unforeseen expenses related to a complete roof replacement and an air handler renovation.

Senator Carroll made a motion to approve the scope increase for ECU. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next Mr. Ruth said the Finance and Administration Cabinet is reporting its approval of a \$1,500,000 appropriation for replacement of the Capital Annex Roof. This project is funded with \$800,000 from the 2006-2008 Statewide Repair, Maintenance and Replacement Pool and \$700,000 from the 2008-2010 Maintenance Pool. No action was required on allocations of maintenance pools.

In response to a question from Senator Leeper, Mr. Ruth said the new roof would have a 20-year warranty.

Mr. Ruth reported that the Finance and Administration Cabinet has approved an unbudgeted project for the Department for Facilities and Support Services to procure and implement energy management software. The project cost is \$3,650,000 and will be funded by the American Recovery and Reinvestment Act. The Commonwealth Energy Management and Control System software will allow the department to monitor and adjust building energy controls to better manage energy usage in governmental facilities. The project is part of the Intelligent Choices for Kentucky Future program.

Senator Carroll made a motion to approve the unbudgeted project for the Department for Facilities and Support Services. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next Mr. Hicks reported that the Finance and Administration Cabinet has approved an unbudgeted project for the Department of Military Affairs, Wendell H. Ford Regional Training Center in Greenville, Kentucky to install solar panels. The project cost is \$750,000 and will be funded by the American Recovery and Reinvestment Act. The project will allow installment of more than 84kw Solar PV Systems at the center.

Senator Carroll made a motion to approve the unbudgeted project for the Department of Military Affairs. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Mr. Hicks reported that the Finance and Administration Cabinet has approved an unbudgeted project for the Department of Military Affairs, Disney Training Center in Barbourville, Kentucky for solar energy improvements. The project cost is \$750,000 and will be funded by the American Recovery and Reinvestment Act. The project will allow the center to increase the number of solar panels currently being installed.

Senator Carroll made a motion to approve the unbudgeted project for the Department of Military Affairs. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Lease Reports from the Finance and Administration Cabinet

Senator Leeper asked Mr. Ruth to report three items related to leases. Mr. Ruth said the first item was for the amortization of leasehold improvements for the Workforce Investment Cabinet in Floyd County (PR-4074). The cabinet has requested improvements to its leased facility to install ADA compliant automatic door opening equipment for a set of double doors. The cost of modifications, \$4,291, will be amortized over the remaining lease term (through June 30, 2012). No Committee action was required.

Next Mr. Ruth reported a new lease for the Cabinet for Health and Family Services in Daviess County (PR-5087). The cabinet was directed to vacate its current space in the Owensboro State Office building. The new space will secure permanent replacement offices for the cabinet. The annual cost of the lease is \$530,979 through July 30 2017.

In response to a question from Representative Wayne, Mr. Ruth said the new office space for the cabinet will have adequate security.

Representative Wayne made a motion to approve the new lease for the cabinet. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Mr. Ruth said the last item was a report of a lease renewal in a foreign jurisdiction for a boat slip on the Ohio River for the Department of Fish and Wildlife Resources in Scioto County Ohio (PR-4883). He said no comparable marinas are located on the Kentucky side of the Ohio River in this general vicinity. No Committee action is required.

In response to a question from Representative Damron, Mr. Ruth said the boat slip on the Ohio side of the river is closer to the officers patrol area and is more efficient.

KIA Fund A Loans

Senator Leeper asked Sandy Williams, Financial Analyst, KIA to present several loans. Ms. Williams said the first loan request was a \$250,000 Fund A loan for the Oldham County Sewer District in Oldham County for construction of the Green Valley Wastewater Treatment Plant Elimination and LaGrange Connection project. The loan term is 20 years with an interest rate of two percent.

Senator Leeper asked if the LaGrange Utilities Commission and/or the City of LaGrange have provided KIA with an agreement. Ms. Williams indicated that the

agreement has been executed, however KIA has not yet received a copy of the agreement. She said KIA will not release funds until a copy of the agreement is received.

The second loan request was a \$17,146,500 Fund A loan for Sanitation District No. 1 in Boone, Campbell, and Kenton Counties for construction of a new 110 million gallon-per-day facility, modifications to the existing final clarifier splitter box, and installation of a chemical scrubber to treat foul air. The loan term is 20 years with an interest rate of two percent.

Representative Westrom made a motion to approve the two Fund A loan requests. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

KIA Fund B loan Assumption

The third request was for a Fund B loan assumption for the Boone County Water District (district) in Boone County. The district is seeking to assume \$2,336,206 in outstanding Infrastructure Revolving Fund B debt of the Boone County Fiscal Court (county). The county and the district intend to enter into a Purchase and Lease Agreement related to the asset and debt assumption from the court to the district. The loan term is 30 years with an interest rate of 2.70 percent.

Senator Carroll made a motion to approve the Fund B loan assumption. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

KIA Fund F loans

The fourth loan request was a \$4,000,000 Fund F loan for the Adair County Water District in Adair County for construction of 38,000 linear feet of twelve-inch ductile iron transmission appurtenances, a new booster pump station, and a 500,000 gallon elevated tank. The loan term is 20 years with an interest rate of one percent.

The fifth loan request was a \$1,700,000 Fund F loan for the City of Louisa in Lawrence County for improvements to the city's water system. The loan term is 20 years with an interest rate of one percent.

Senator Carroll made a motion to approve the two Fund F loans. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

KIA Grants

Ms. Williams indicated various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

New Bond Issue – Kentucky Asset/Liability Commission (ALCo)

Senator Leeper asked Mr. Antle to present two new bond issues. The first new bond issue was for ALCo Funding Notes 2010 General Fund First Series. Proceeds from this bond issue will be used to refinance obligations owed under KRS 161.550(2) and KRS 161.553(2) for the Kentucky Teachers Retirement System Pension Fund to reimburse the Fund for 100 percent of the outstanding loan balances plus accrued interest through the date of settlement.

In response to questions from Senator Carroll and Representative Damron, Mr. Antle said this transaction is estimated to result in \$60 million in cash flow savings.

Representative Damron made a motion to approve the new bond issue for ALCo. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

New Bond Issue – University of Kentucky General Receipts Bonds, 2010 Series A (Taxable Build America Bonds or Tax-Exempt).

Mr. Antle indicated Bob Wiseman, Vice President for Facilities Management, and Donna Counts, Office of the Treasurer, University of Kentucky (UK), would report on the new bond issue. Mr. Wiseman said with this bond issue UK will be implementing an Energy Savings Performance Contract (ESPC). The ESPC involves replacing existing lighting technology, replacing high-flow plumbing fixtures, and upgrading existing mechanical HVAC systems in 61 buildings on campus. The improvements are expected to produce a guaranteed savings of approximately \$2.7 million annually. The 2010 Special Session HB 1(2010-2012 Budget) authorized \$25 million in agency bonds for UK's ESPC.

The UK Board of Trustees approved the initiation in December 2009. Although UK has anticipated using agency bonds for this project, the board has not yet approved a resolution authorizing the issuance of the bonds because the state budget was adopted later. UK wants to begin the project this summer to take advantage of having fewer students on campus. The university plans to begin the projects and have the board approve a reimbursement resolution when the board meets in September, whereby the project costs would be reimbursed from bond proceeds. The bonds will not be issued until October. Because the UK Board will not meet until September, UK's Vice President for Financial Operations and Treasures has provided certification that the project will not result in an increase in tuition and fees as required in HB 1, Part II, Section K (2010-2012 Budget).

Senator Buford made a motion to approve the new bond issue for UK. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

Follow-up Reports for Previously Approved Bond Issues – Turnpike Authority bonds

Next Mr. Antle reported four follow-up reports for previously approved bond issues. The first follow-up report was for the Turnpike Authority of Kentucky (TAK) Economic Development Road Revenue and Revenue Refunding Bonds 2010 Series A & B (Revitalization Projects) dated June 25, 2010. Proceeds from this bond issue will permanently finance \$250 million of Road Fund-supported projects authorized by 2008 HB 406 and 2009 HB 536. The financing also includes a debt restructuring component to provide \$81 million in budgetary relief for the Road Fund. The bond issue was approved by the Committee at the March 2010 meeting.

Kentucky Higher Education Student Loan Corporation bonds

Mr. Antle indicated that Jim Ackinson, Vice President, Kentucky Higher Education Student Loan Corporation (KHESLC) would report on the KHESLC Student Loan Revenue Bonds, Series 2010-1 (Tax-Exempt Non-AMT LIBOR Floating Rate Bonds) Class A -1 and A-2 bond issue, which was approved by the Committee at the February 2010 meeting. Mr. Ackinson explained that this bond issue eliminated KHESLC's risk exposure related to the failed auction rate securities issued under KHESLC's 2004 General Bond Resolution.

Mr. Ackinson said KHESLC was able to borrow \$703 million from the Straight A funding program established by the federal government. The second piece of the financing was required because not all of KHESLC's pre-existing collateral was eligible for Straight A funding.

Morehead State University bonds

Next Mr. Antle said the third first follow-up report was for Morehead State University General Receipts Bonds, Taxable Build America Bonds 2010 Series A. Proceeds from this bond issue will be used for the Renovate Mignon Tower Residence Hall as authorized in 2008 HB 406 (2008-10 Budget). This bond issue was included on the Committee's May 2010 agenda, but was not approved due to a lack of quorum. The Finance and Administration Cabinet notified the Committee in a letter that the Cabinet would proceed with the bond issue.

Northern Kentucky University bonds

The fourth follow-up report was for Northern Kentucky University General Receipts Bonds, 2010 Series A. Proceeds from this bond issue will be used for the Acquire and Renovate Residence Hall project as authorized in 2008 HB 406 (2008-10 Budget) and will refund the university's outstanding Consolidated Educational Buildings Revenue Bonds Series J and refund the outstanding principal amount of a 1998 facilities lease, including the related certificates of participation. This bond issue was included on the Committee's May 2010 agenda, but was not approved due to a lack of quorum. The

Finance and Administration Cabinet notified the Committee in a letter that the Cabinet would proceed with the bond issue. No Committee action is needed on follow-up reports.

Representative Damron asked how the interest rates on the recent bond issues compared with the interest rate assumptions made in the budget. Mr. Antle said the interest rates on the bonds are coming in considerably lower than forecasted. He said going into this budget cycle, OFM provided estimates on both a Build America Bond basis and tax-exempt basis. He said the Build American Bond program has played an important role in the rates coming in lower than projected. Mr. Antle said when they estimate the rate for Authorized But Unissued bonds (ABUI) potential market volatility is considered.

Mr. Hicks also responded that the state has not yet issued bonds for traditional General Fund-supported capital projects. Representative Damron asked what was used in the budget for interest rates on these. Mr. Antle answered seven percent for tax-exempt debt and nine percent for the taxable rate on Build America Bonds.

Representative Damron asked if 4.5 percent was a fair estimate for the actual rates on debt. Mr. Antle responded affirmatively.

Representative Damron asked if there would be a significant savings going forward. Mr. Hicks said if the rates continue into the next issuance there would be a significant savings. Mr. Hicks said the ratio of debt service to revenue is lower than what was projected.

School Bond Issues

Mr. Antle reported eight new bond issues with School Facilities Construction Commission (SFCC) debt service participation for Boyle County, Garrard County, Green County, Harlan County, Lee County, Nelson County, Ohio County, and Owen County.

Senator Buford made a motion to approve the eight SFCC bond issues. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

Senator Leeper asked Ms. Culpepper to report the new local school bond issues. Ms. Culpepper said there were six new school district bond issues with 100 percent local debt support for Franklin County, Grayson County, Hardin County, Lincoln County, Lincoln County, and Ohio County. All disclosure information has been filed. No Committee action was needed.

With there being no further business, Representative Westrom made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:05 p.m.